



Circular No. A-127

Revised

July 23, 1993

Circular No. A-127--Revised
Transmittal Memorandum No. 1

TO THE HEADS OF EXECUTIVE DEPARTMENTS AND ESTABLISHMENTS

SUBJECT: Financial Management Systems

Circular No. A-127 prescribes policies and standards for executive departments and agencies to follow in developing, operating, evaluating, and reporting on financial management systems. This Transmittal Memorandum contains updated guidance which eliminates unnecessary overlap between Circular No. A-127 and Circular A-123, "Internal Control Systems"; eliminates unnecessary overlap between Circular No. A-127 and with Circular A-130, "Management of Federal Information Resources"; clarifies terminology and definitions; updates the Circular for statutory and policy changes; clarifies certain agency responsibilities; and eliminates outdated guidance. This Circular replaces and rescinds OMB Circular No. A-127 dated December 19, 1984. This Circular also rescinds OMB memorandum M-85-10, "Financial Management and Accounting Objectives" and M-85-16, "Guidelines for Evaluating Financial Management/Accounting Systems."

Leon E. Panetta
Director

Attachment

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- [1. Purpose](#)
- [2. Rescission](#)
- [3. Authorities](#)
- [4. Applicability and Scope](#)
- [5. Definitions](#)
- [6. Policy](#)
- [7. Financial Management System Requirements](#)
- [8. Financial Management System Improvements](#)
- [9. Assignment of Responsibilities](#)
- [10. Information Contact](#)
- [11. Review Date](#)
- [12. Effective Date](#)

1. Purpose. OMB Circular No. A-127 (hereafter referred to as Circular A-127) prescribes policies and standards for executive departments and agencies to follow in developing, operating, evaluating, and reporting on financial management systems.

2. Rescission. This Circular replaces and rescinds Circular A-127 dated December 19, 1984. This Circular also rescinds OMB memorandum M-85-10, "Financial Management and Accounting Objectives" and M-85-16, "Guidelines for Evaluating Financial Management/Accounting Systems."

3. Authorities. This Circular is issued pursuant to the Chief Financial Officers Act (CFOs Act) of 1990, P.L. 101-576 and the Federal Managers' Financial Integrity Act of 1982, P.L. 97-255 (31 U.S.C. 3512 et seq.); and 31 U.S.C. Chapter 11.

4. Applicability and Scope.

a. The policies in this Circular apply to the financial management systems of all agencies as defined in Section 5 of this Circular. Agencies not included in the CFOs Act are exempted from certain requirements as noted in Section 9 of this Circular.

b. The policies contained in OMB Circular No. A-130, "Management of Federal Information Resources" (hereafter referred to as Circular A-130) govern agency management of information systems. The policies contained in Circular A-130 apply to all agency information resources, including financial management systems as defined in this Circular.

c. The policies and procedures contained in OMB Circular No. A-123, "Internal Control Systems," (hereafter referred to as Circular A-123) govern executive departments and agencies in establishing, maintaining, evaluating, improving, and reporting on internal controls in their program and administrative activities. Policies and references pertaining to internal controls contained in this Circular serve to amplify policies contained in Circular A-123 or highlight requirements unique to financial management systems.



5. Definitions. For the purposes of this Circular, the following definitions apply:

The term "agency" means any executive department, military department, independent agency, government corporation, government controlled corporation, or other establishment in the executive branch of the government.

The term "information system" means the organized collection, processing, transmission, and dissemination of information in accordance with defined procedures, whether automated or manual. Information systems include non- financial, financial, and mixed systems as defined in this Circular.

The term "financial system" means an information system, comprised of one or more applications, that is used for any of the following:

- collecting, processing, maintaining, transmitting, and reporting data about financial events;
- supporting financial planning or budgeting activities;
- accumulating and reporting cost information; or
- supporting the preparation of financial statements.

A financial system supports the financial functions required to track financial events, provide financial information significant to the financial management of the agency, and/or required for the preparation of financial statements. A financial system encompasses automated and manual processes, procedures, controls, data, hardware, software, and support personnel dedicated to the operation and maintenance of system functions. A financial system may include multiple applications that are integrated through a common database or are electronically interfaced, as necessary, to meet defined data and processing requirements.

The term "non-financial system" means an information system that supports non-financial functions of the Federal government or components thereof and any financial data included in the system are insignificant to agency financial management and/or not required for the preparation of financial statements.

The term "mixed system" means an information system that supports both financial and non-financial functions of the Federal government or components thereof.

The term "financial management systems" means the financial systems and the financial portions of mixed systems necessary to support financial management.



The term "single, integrated financial management system" means a unified set of financial systems and the financial portions of mixed systems encompassing the software, hardware, personnel, processes (manual and automated), procedures, controls and data necessary to carry out financial management functions, manage financial operations of the agency and report on the agency's financial status to central agencies, Congress and the public. Unified means that the systems are planned for and managed together, operated in an integrated fashion, and linked together electronically in an efficient and effective manner to provide agency-wide financial system support necessary to carry out the agency's mission and support the agency's financial management needs.

The term "application (financial or mixed system)" means a group of interrelated components of financial or mixed systems which supports one or more functions and has the following characteristics:

- a common data base
- common data element definitions
- standardized processing for similar types of transactions
- common version control over software

The term "financial event" means any occurrence having financial consequences to the Federal government related to the receipt of appropriations or other financial resources; acquisition of goods or services; payments or collections; recognition of guarantees, benefits to be provided, or other potential liabilities; or other reportable financial activities.

The term "work process" means a series of activities operating together to achieve an end or desired result (mission, goal or objective). A work process is a workflow or series of steps necessary for the initiation, tracking and delivery of services or outputs. The process reflects how resources are managed to deliver the services or outputs and may cut across existing or future organizational boundaries.

6. Policy. Financial management in the Federal government requires accountability of financial and program managers for financial results of actions taken, control over the Federal government's financial resources and protection of Federal assets. To enable these requirements to be met, financial management systems must be in place to process and record financial events effectively and efficiently, and to provide complete, timely, reliable and consistent information for decision makers and the public.

The Federal government's financial management system policy is to establish government-wide financial systems and compatible agency systems, with standardized information and electronic data exchange between central management agency and



individual operating agency systems, to meet the requirements of good financial management. These systems shall provide complete, reliable, consistent, timely and useful financial management information on Federal government operations to enable central management agencies, individual operating agencies, divisions, bureaus and other subunits to carry out their fiduciary responsibilities; deter fraud, waste, and abuse of Federal government resources; and facilitate efficient and effective delivery of programs through relating financial consequences to program performance.

In support of this objective, each agency shall establish and maintain a single, integrated financial management system that complies with:

- applicable accounting principles, standards, and related requirements as defined by OMB and the Department of the Treasury;
- internal control standards as defined in Circular A-123 and/or successor documents;
- information resource management policy as defined in Circular A-130 and/or successor documents; and
- operating policies and related requirements prescribed by OMB, the Department of the Treasury and the agency.

An agency's single, integrated financial management system shall comply with the characteristics outlined in Section 7 of this Circular.

7. Financial Management System Requirements. Agency financial management systems shall comply with the following requirements:

a. **Agency-wide Financial Information Classification Structure.** The design of the financial management systems shall reflect an agency-wide financial information classification structure that is consistent with the U. S. Government Standard General Ledger, provides for tracking of specific program expenditures, and covers financial and financially related information. This structure will minimize data redundancy, ensure that consistent information is collected for similar transactions throughout the agency, encourage consistent formats for entering data directly into the financial management systems, and ensure that consistent information is readily available and provided to internal managers at all levels within the organization. Financial management systems' designs shall support agency budget, accounting and financial management reporting processes by providing consistent information for budget formulation, budget execution, programmatic and financial management, performance measurement and financial statement preparation.

b. **Integrated Financial Management Systems.** Financial management systems shall be designed to provide for effective and efficient interrelationships between software,



hardware, personnel, procedures, controls, and data contained within the systems. In doing so, they shall have the following characteristics:

- Common Data Elements. Standard data classifications (definitions and formats) shall be established and used for recording financial events. Common data elements shall be used to meet reporting requirements and, to the extent possible, used throughout the agency for collection, storage and retrieval of financial information. Government-wide information standards (e.g., the U. S. Government Standard General Ledger) and other external reporting requirements shall be incorporated into the agency's standard data classification requirements.

- Common Transaction Processing. Common processes shall be used for processing similar kinds of transactions throughout the system to enable these transactions to be reported in a consistent manner.

- Consistent Internal Controls. Internal controls over data entry, transaction processing and reporting shall be applied consistently throughout the system to ensure the validity of information and protection of Federal government resources.

- Efficient Transaction Entry. Financial system designs shall eliminate unnecessary duplication of transaction entry. Wherever appropriate, data needed by the systems to support financial functions shall be entered only once and other parts of the system shall be updated through electronic means consistent with the timing requirements of normal business/transaction cycles.

c. Application of the U. S. Government Standard General Ledger at the Transaction Level. Financial events shall be recorded by agencies throughout the financial management system applying the requirements of the U.S. Government Standard General Ledger (SGL) at the transaction level. Application of the SGL at the transaction level means that the financial management systems will process transactions following the definitions and defined uses of the general ledger accounts as described in the SGL. Compliance with this standard requires:

- Data in Financial Reports Consistent with the SGL. Reports produced by the systems that provide financial information, whether used internally or externally, shall provide financial data that can be traced directly to the SGL accounts.

- Transactions Recorded Consistent with SGL Rules. The criteria (e.g., timing, processing rules/conditions) for recording financial events in all financial management systems shall be consistent with accounting transaction definitions and processing rules defined in the SGL.

- Supporting Transaction Detail for SGL Accounts Readily Available. Transaction detail supporting SGL accounts shall be available in the financial management systems and directly traceable to specific SGL account codes.



Agencies may supplement their application of the SGL to meet agency specific information requirements in accordance with guidance provided in the U.S. Government Standard General Ledger supplement to the Treasury Financial Manual.

d. Federal Accounting Standards. Agency financial management systems shall maintain accounting data to permit reporting in accordance with accounting standards recommended by the Federal Accounting Standards Advisory Board (FASAB) and issued by the Director of OMB, and reporting requirements issued by the Director of OMB and/or the Secretary of the Treasury. Where no accounting standards have been recommended by FASAB and issued by the Director of OMB, the systems shall maintain data in accordance with the applicable accounting standards used by the agency for preparation of its financial statements. Agency financial management systems shall be designed flexibly to adapt to changes in accounting standards.

e. Financial Reporting. The agency financial management system shall meet the following agency reporting requirements:

-- Agency Financial Management Reporting. The agency financial management system shall be able to provide financial information in a timely and useful fashion to (1) support management's fiduciary role; (2) support the legal, regulatory and other special management requirements of the agency; (3) support budget formulation and execution functions; (4) support fiscal management of program delivery and program decision making, (5) comply with internal and external reporting requirements, including, as necessary, the requirements for financial statements prepared in accordance with the form and content prescribed by OMB and reporting requirements prescribed by Treasury; and (6) monitor the financial management system to ensure the integrity of financial data.

-- Performance Measures. Agency financial management systems shall be able to capture and produce financial information required to measure program performance, financial performance, and financial management performance as needed to support budgeting, program management and financial statement presentation. As new performance measures are established, agencies shall incorporate the necessary information and reporting requirements, as appropriate and feasible, into their financial management systems.

f. Budget Reporting. Agency financial management systems shall enable the agency to prepare, execute and report on the agency's budget in accordance with the requirements of OMB Circular No. A-11 (Preparation and Submission of Budget Estimates), OMB Circular No. A-34 (Instructions on Budget Execution) and other circulars and bulletins issued by the Office of Management and Budget.

g. Functional Requirements. Agency financial management systems shall conform to existing applicable functional requirements for the design, development, operation, and maintenance of financial management systems. Functional requirements are defined in a series of publications entitled Federal Financial Management Systems Requirements



issued by the Joint Financial Management Improvement Program (JFMIP). Additional functional requirements may be established through OMB circulars and bulletins and the Treasury Financial Manual. Agencies are expected to implement expeditiously new functional requirements as they are established and/or made effective.

h. Computer Security Act Requirements. Agencies shall plan for and incorporate security controls in accordance with the Computer Security Act of 1987 and Circular A-130 for those financial management systems that contain "sensitive information" as defined by the Computer Security Act.

i. Documentation. Agency financial management systems and processing instructions shall be clearly documented in hard copy or electronically in accordance with (a) the requirements contained in the Federal Financial Management Systems Requirements documents published by JFMIP or (b) other applicable requirements. All documentation (software, system, operations, user manuals, operating procedures, etc.) shall be kept up-to-date and be readily available for examination. System user documentation shall be in sufficient detail to permit a person, knowledgeable of the agency's programs and of systems generally, to obtain a comprehensive understanding of the entire operation of each system. Technical systems documentation such as requirements documents, systems specifications and operating instructions shall be adequate to enable technical personnel to operate the system in an effective and efficient manner.

j. Internal Controls. The financial management systems shall include a system of internal controls that ensure resource use is consistent with laws, regulations, and policies; resources are safeguarded against waste, loss, and misuse; and reliable data are obtained, maintained, and disclosed in reports. Appropriate internal controls shall be applied to all system inputs, processing, and outputs. Such system related controls form a portion of the management control structure required by Circular A-123.

k. Training and User Support. Adequate training and appropriate user support shall be provided to the users of the financial management systems, based on the level, responsibility and roles of individual users, to enable the users of the systems at all levels to understand, operate and maintain the system.

l. Maintenance. On-going maintenance of the financial management systems shall be performed to enable the systems to continue to operate in an effective and efficient manner. The agency shall periodically evaluate how effectively and efficiently the financial management systems support the agency's changing business practices and make appropriate modifications.

8. Financial Management System Improvements. In improving financial management systems, agencies shall follow the information technology management policies presented in Circular A-130. In addition, agencies shall comply with the following



policies in designing, developing, implementing, operating and maintaining financial management systems:

a. Improvement in Agency Work Processes. Designs for financial systems and mixed systems shall be based on the financial and programmatic information and processing needs of the agency. As part of any financial management system design effort, agencies are to analyze how system improvements, new technology supporting financial management systems, and modifications to work processes can together enhance agency operations and improve program and financial management. The reassessment of information and processing needs shall be an integral part of the determination of system's requirements. Process redesign shall be considered an essential step towards meeting user needs in program management, financial management, and budgeting. Concurrent with developing and implementing integrated financial management systems, agencies shall consider program operations, roles and responsibilities, and policies/practices to identify related changes necessary to facilitate financial management systems operational efficiency and effectiveness.

b. Cost Effective and Efficient Development and Operation of Financial Management Systems. Financial management system development and implementation efforts shall seek cost effective and efficient solutions as required by Circular A-130. A custom software development approach for financial management systems shall be used as a last resort and only after consideration of all appropriate software options, including the following:

- use of the agency's existing system with enhancements/upgrades,
- use of another system within the department/agency,
- use of an existing system at another department/agency,
- use of a commercial "off-the-shelf" software package,
- use of a system under development at another department, or
- use of a private vendor's service.

The cost effectiveness of developing custom software shall be clear and documented in a benefit/cost analysis that includes the justification of the unique nature of the system's functions that preclude the use of alternative approaches. This analysis shall be made available to OMB for review upon request.

c. Cross or Private Servicing. Cross servicing of financial system support, where one agency or a division within an agency provides financial management software and processing support to another agency or division within an agency, or private servicing through commercial vendors shall be used whenever feasible and cost effective, as a solution to meet Federal government financial management system needs. Agencies



providing cross-servicing support shall ensure that systems are maintained appropriately; fees for service are reasonable; adequate conversion support is provided; procedures, training and documentation are available and periodic service reviews are conducted. Small agencies are particularly encouraged to use cross-servicing to meet fundamental core financial and payroll/personnel processing and reporting requirements.

d. Use of "Off-the-Shelf" Software. GSA shall maintain the Financial Management System Software (FMSS) Multiple Award Schedule for vendors providing acceptable software which meets the core financial system requirements as defined in the Core Financial System Requirements document published by JFMIP and other applicable accounting principles, standards, and related requirements as defined by OMB for governmentwide use. Such software packages will be "benchmarked," as appropriate, by an independent team approved by the OMB Office of Federal Financial Management (OFFM) or its designee to assure the software complies with such requirements. Periodic recertification will be required to ensure that software continues to support financial system requirements.

Agencies replacing software to meet core financial system requirements must use "off-the-shelf" software from the GSA FMSS Multiple Award Schedule unless a waiver is granted under the Federal Information Resources Management Regulations (FIRMR). Agencies obtaining such a waiver must ensure the system, whether resulting from a custom software development approach or from software existing within or external to the agency, is "benchmarked" by an independent team approved by OFFM or its designee.

Financial management system software meeting requirements beyond the scope of the Core Financial System Requirements document may also be made available under the GSA FMSS Multiple Award Schedule as agreed to by the OFFM or its designee.

e. Joint Development of Software. Agencies with similar financial management functions, after considering "off-the-shelf" software solutions, are encouraged to undertake joint development efforts by pooling resources and developing common approaches for meeting similar financial functions. The designs for jointly developed software shall contain the flexibility and other features needed for transportability of the system to other agencies and/or cross-servicing.

f. Transfer of Agency Financial Management Software. In cases where an agency determines it is more efficient and effective to use or adopt the software of another agency to meet its financial management system requirements, the agency shall ensure the following:

1. The software meets the financial management system requirements in Section 7 of this Circular.



2. A formal written agreement on the transfer of software is prepared and approved by all parties. The agreement shall cover the full scope of support services to be provided including system modifications, maintenance and related costs;
3. Any necessary support requirements not covered in the agreement shall be provided by the agency and such support, including implementation support and training, shall be assessed and determined to be adequate.
4. An ongoing relationship for determining future enhancements shall be established between the parties involved.

Any compensation arrangements for the transfer of the software shall conform to Circular A-130 policies.

9. Assignment of Responsibilities.

a. **Agency Responsibilities.** Agencies shall perform the financial management system responsibilities prescribed by legislation referenced in Section 3 "Authorities" of this Circular. In addition, each agency shall take the following actions:

1. **Develop and Maintain an Agency-wide Inventory of Financial Management Systems.**

Agencies are required to maintain an inventory of existing and proposed financial management systems. Annually CFOs Act agencies will provide OMB with financial management system information in compliance with the financial system planning guidance issued by OMB for the Agency CFO 5-Year Financial Management Plan. Financial management systems shall be included in the agency information systems inventory following the information system inventory policies established in OMB Circular A-130.

2. **Develop and Maintain Agency-wide Financial Management System Plans.**

Agencies are required to prepare annual financial management systems plans. These plans shall be developed in accordance with OMB guidance issued annually. Financial management system planning guidance for CFOs Act agencies shall be included in the guidance for developing CFO Financial Management 5-Year Plans.

The financial management systems strategies and tactical initiatives included in the CFO Financial Management 5-Year Plan shall be incorporated into the agency's five year information systems plan prepared in compliance with Circular A-130.

Agencies not covered by the CFOs Act shall prepare plans following the CFO Financial Management 5- Year Plan guidance but are not required to submit the plans to OMB. Financial management system plans shall be an integral part of the



agency's overall planning process and updated for significant events that result in material changes to the plan as they occur.

3. Review of Agency Financial Management Systems.

Each agency shall ensure appropriate reviews are conducted of its financial management systems. The results of these reviews shall be considered when developing financial management systems plans. OMB encourages agencies to coordinate and, where appropriate, combine required reviews. Reviews must comply with policies for (1) reviews of internal controls undertaken and reported on in accordance with the guidance issued by OMB for compliance with the requirements of the Federal Managers' Financial Integrity Act (FMFIA) and Circular A-123, (2) reviews of conformance of financial management systems with the principles, standards and related requirements in Section 7 of this Circular undertaken in accordance with the guidance issued by OMB for compliance with requirements of the FMFIA, and (3) reviews of systems and security as required under provisions of Circular A-130.

4. Develop and Maintain Agency Financial Management System Directives.

Agencies shall issue, update, and maintain agency- wide financial management system directives to reflect policies defined in this Circular.

b. GSA Responsibilities. GSA is responsible for maintaining the FMSS Multiple Award Schedule for Federal financial management software and related services in accordance with guidance provided by OMB.

10. Information Contact. All questions or inquiries should be addressed to the Office of Federal Financial Management, Federal Financial Systems Branch, telephone number 202/395- 6903.

11. Review Date. This Circular shall be reviewed three years from the date of issuance to ascertain its effectiveness.

12. Effective Date. This Circular is effective immediately.